

CITIZENS TO HALT LEASE

Inner Director Says Present Conditions Are Abnormal

TESTS AGAINST FARE INCREASES

demns the Program Which Would Guarantee 5 Per Cent Dividend

Mr. Taylor, former Director of the Department of City Transit, in a statement issued today calls upon the citizens of this city to take steps to prevent the adoption by City Council of the revised Smith-Mitten transit lease.

He said it would be unjustifiable for the city to enter into a contract under present abnormal conditions, due to the fact that the contract would empower the P. R. T. Company to increase its stock to \$10,000,000 and to receive a 5 per cent dividend on its capital stock of \$20,000,000.

While he urges that a contract between the city and company be postponed until after the war, he suggests a temporary agreement be entered into with the P. R. T. Company for the operation of the Frankford "L" as an extension of the Market street subway; and that the exchange-ticket question together with the P. R. T. Company's fare requirements be taken before the Public Service Commission so that the commission can make an inquiry into the facts and determine a method for eliminating the exchange tickets in sections of the city where they are discriminatory.

The former Director of Transit criticized the retention of the board of supervising engineers in the Smith-Mitten lease. The board, he says, is clothed with autocratic powers in the control of the city's unified system; that their powers will remove from City Councils jurisdiction over important transit affairs.

Mr. Taylor denied any participation in framing the revised Smith-Mitten lease. This is an answer, he said, to a current impression that he participated in revising the lease, and said that although Dr. William Frazer Lewis had promised to discuss the proposed amendments to the original lease with Thomas Macburn White, chairman of the former Director's committee of attorneys, he called to comply with his promise to discuss them with us and failed to express his views with relation to them.

MR. TAYLOR'S STATEMENT

Mr. Taylor's statement, in full, is as follows: Representatives of the Philadelphia Rapid Transit Company and of the city Administration have submitted to City Councils, with their indorsement, a revised draft of the proposed contract between the city and the Philadelphia Rapid Transit Company.

New and unanticipated conditions resultant from the war which are constantly developing introduce new and important factors which must be understood and considered in connection with the proposed contract.

Among those factors which affect the company and its operations are the following:

First. Financial conditions, present and prospective, compel the company to withdraw its original proposition to provide the money required for the purchase of equipment for the city's high-speed lines on a 5 per cent basis or on any other basis.

Second. New taxes have been imposed upon the company's income and upon the profits of its subsidiary companies which may subject the company temporarily—until some time after the cessation of the war—to an additional financial charge, which may amount to a million or a million and a half dollars per year under existing legislation.

Third. The increase in the cost of the company's coal and other supplies, based upon prices now current, may amount to well over one-half million dollars a year.

Fourth. Other operating expenses of the company are likely to be increased to an unknown extent during the period of the war.

Among those factors which affect the city's transit development are the following:

First. The city cannot build subways and elevated railways during the war, because:

(a) The required material can not be secured.

(b) The required labor can not be secured.

(c) Prices of labor and material are prohibitive.

At least doubtful whether, aside from the foregoing factors, it would be prudent and patriotic on the part of the city to proceed with the construction of its high-speed lines at this time.

Second. The industrial and financial resources of the country are required for the successful prosecution of the war.

Third. The best that the city can hope for at present is the completion of the Frankford elevated and the continuance of work on a small portion of the Broad street subway, which is already under construction, so long as the necessary material is available.

Thus it becomes apparent, on the other hand, that the Philadelphia Rapid Transit Company, which, under the terms of the 1907 contract, is bound to maintain the present rates of fare—unless they be changed with the consent of the city—will be subjected to heavy and unexpected increases in its charges and cost of operation resultant from the war, which will probably require an increase in car fares, regardless of the effect of the city's transit development and before any part of it is placed in operation, if the present 5 per cent dividend is to be maintained by that company.

Under the terms of the proposed contract the company would be definitely assured of a cumulative 5 per cent dividend on its stock, with the right to increase car fares to any extent necessary to produce and pay that dividend.

If the company can at any time submit to the public authorities facts and figures which demonstrate that it is entitled to increased car fares, the public authorities—after investigation of the subject—should determine what increase the facts require and fully justify, and promptly allow the same.

For the city to enter into a contract—under present abnormal conditions (which are depleting the P. R. T. Company's net income)—empowering that company to increase car fares to any extent necessary to maintain its 5 per cent dividend, without justifying the relevant facts by the public authorities, and without having the equities of the case judicially determined, would be unjustifiable.

COMPACT OF 1907

Under the 1907 contract, vast concessions were made by the city to the P. R. T. Company in consideration of its agreement to maintain the present rate of fare.

Only two factors could, therefore, justify the city in releasing the company from that commitment.

First. An expose of facts and figures—to competent public authorities—which would demonstrate that the present rate of fare is unjust, and what rate of fare the equities of the situation entitle the company to charge. Then it would be the duty of the public authorities to immediately allow whatever increase in car fares they may find to be just.

Second. Municipal action in establishing subway and elevated railways in cooperation with the P. R. T. Company would entitle that company to protection against competitive losses and to reasonable compensation for its co-operation.

The aforesaid second factor has been removed for an indefinite period by reason of the city's inability to build any of its high-speed lines, except the Frankford elevated.

It has been conceded by the company and by the city that the operation of the Frankford elevated by the company—an extension of the Market street subway—will not be burdensome.

When the so-called Taylor agreement was formulated and presented to Councils, the present unprecedented abnormal conditions were not in sight or contemplated.

The company was making nearly 5 per cent on its stock, and then it appeared that the earning capacity of the present system would, at the present rate of fare, with exchange tickets eliminated, justify a continuation of 5 per cent dividends on the stock.

Therefore, it was then agreed that the company should be assured a 5 per cent return on its stock, in consideration of its providing and financing on a 5 per cent basis the cost of equipment of the city's high-speed lines and the cost of future extensions of its surface system, and in consideration of its co-operation in operating the city's high-speed lines with free transfers.

The company is now unable to agree to supply the equipment for the city's high-speed lines on a 5 per cent basis or upon any other basis.

The city is unable to establish the high-speed lines now, as contemplated, for operation by the company.

The city has inadequate borrowing capacity to provide the equipment for its high-speed lines in the future when they are built, and cannot secure the borrowing capacity required to provide their equipment except by a very gradual process, as each line becomes self-sustaining, in whole or in part, during or after the second year of its operation.

Thus the city would be required, by reason of the company's inability to provide equipment for its high-speed lines, to postpone the high-speed line and then pause until it became profitable before building another high-speed line, and so on.

It is now my duty to point out that, in the proposed contract now submitted, Doctor Lewis's promise has not been complied with, for Article XXI, Section (c), absolutely assures to the company the right to increase car fares to any extent necessary from time to time to assure the payment of a 5 per cent cumulative dividend upon the company's capital stock at any time after the contract becomes effective, even before any of the city's high-speed lines are placed in operation.

It is my duty to advise the public that present unforeseen abnormal conditions would produce a prompt increase in car fares under this provision, should it become effective.

DEFICIENCY WOULD BE OFFSET

I have always reported that, with a present fare and free transfers, there would be a substantial annual deficit during the early years of operation of the city's high-speed lines, which I believe would, and should, be offset by the additional tax which will come to the City Treasury from the inevitable increase in taxable values in the districts which will be benefited by the establishment of the high-speed lines.

This principle has been established by experience and investigations in New York, and has fully justified New York City in maintaining a five-cent fare, and in absorbing the deficits amounting to millions of dollars during the early years of operation of its high-speed lines.

As a general proposition, no railroad enterprise charging a reasonable rate of fare yields a fair return on the capital invested during its early years of operation, and this—as I have always stated—would be the case with the city's high-speed system in Philadelphia.

Therefore, I warn the public that the provision in Item (c), of Article XXI, of the contract, commits the car riders to excessive car fares during the early years of operation of the city's high-speed lines, unless affirmative action be taken by City Councils, as provided in the third paragraph of Article XVIII, abating a portion of the city's interest and sinking fund charges in relief of car fares, which right to make an abatement appears to be limited by the provisions contained in Article XXI (d), first paragraph, which provides that:

Fares and charges shall be reduced downward whenever the surplus accumulated under the lease shall amount to \$2,000,000, and the reports for two consecutive years shall show a surplus increasing in a substantial amount annually.

This provision would appear to seriously restrict the right of action by City Councils in the premises.

Item 1, Doctor Lewis, as counsel for the Administration, assured the committee of Councils, and the public, that it was not intended that the contract between the city and the company should guarantee or secure to the company any stated revenue or dividend on its stock, but that any proposed increase in car fares would be submitted to, and passed upon by the Public Service Commission of the State of Pennsylvania.

Doctor Lewis also publicly promised the committee of Councils that this was the understanding between the parties,

and that the agreement would be revised so as to make this fact clear.

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Under present conditions this liability should be considered.

Item 1, in Article XXIV the company waives cumulative dividends due under 1907 contract to date when proposed contract may become effective. In order that the intention of the parties may be more clearly expressed, I suggest that the words "and cancel" be added after the word "waives."

Item 8, Article XXXVII contains, no provision that the contract may be continued at the option of the city (after the expiration of the term thereof in 1957), from year to year until the city gives notice of cancellation.

FATAL DEFECT IN CONTRACT

Thus, at the end of the term of the contract, the city would be bound to either put the money required to purchase the Philadelphia Rapid Transit Company's stock then outstanding at par, for which purpose the accumulation in the sinking fund established under the 1907 contract would be grossly inadequate, or to pay to the company the sums invested by it in transit facilities for the city, which have not then been amortized, including cost of cables, conduits, substations and other appurtenances, take back its high-speed lines and forfeit the money expended by the city in straightening the Market Street Subway Line through beneath the City Hall, greatly to the benefit of the company, as provided in Article VIII. This alone should be considered a fatal defect in the contract, for the city would then be without power generating plants and other facilities necessary for the operation of its high-speed system.

Board of Supervising Engineers—Section "D." The Board of Supervising Engineers, to consist of two members, is established under the terms of the lease; the city and company each to appoint one member, who shall be technically qualified as an experienced transportation engineer and who shall be subject to removal any time by the city or company, respectively; the city's member to be appointed by the Mayor, subject to approval of Select Council—but may be removed by the Mayor.

Thus the Mayor and the Philadelphia Rapid Transit Company would control this board, to which the proposed contract would delegate unrestricted powers of appointment of an unlimited force of assistants, without civil service or councilmanic restriction, also the unrestricted power to fix salaries, incur expenses and to appropriate money out of gross income of the unified system to pay the same. These are most dangerous provisions and they would remove from City Councils jurisdiction over most important public affairs.

The contract also provides that each

of the supervising engineers shall receive a salary of \$10,000 per year, and that when an arbitrator may be called in by the board his compensation shall be fixed by the board.

The creation and appointment of this board of supervising engineers, as provided, and the delegation to it of vast, unrestricted powers—especially under present conditions in Philadelphia—would be unwise and exceedingly dangerous.

The salaries of the members of the board and of its staff of assistants and employees, the office rent and other expenses would, under the terms of the lease, become a very heavy and unwarranted burden upon the gross income of the unified system and street railway passengers would be bound to foot the bill through increased car fares.

While it is provided in Article XXXI, Section 8, that the city, or company, if it believes any order of the board concerning a matter within the jurisdiction of the commission to be unjust and unreasonable, may petition the commission to make such order as shall appear to be just and reasonable, this provision does not deprive the board of many autocratic powers granted to it to finally determine, regardless of City Councils, important questions, under the terms of the lease—in some instances by withholding an

order, and in other instances by issuing an order as to matters concerning which the commission has at present no jurisdiction.

Among these autocratic powers are the following:

Article II, 2. Provides that the city may alter or change the routes, termini and character of construction of the city-owned system, upon the recommendation of the board, and with the approval of the commission.

The board is thus vested with the power to veto such changes which the city may wish to make, by withholding its recommendation.

Article III. Provides that the city will

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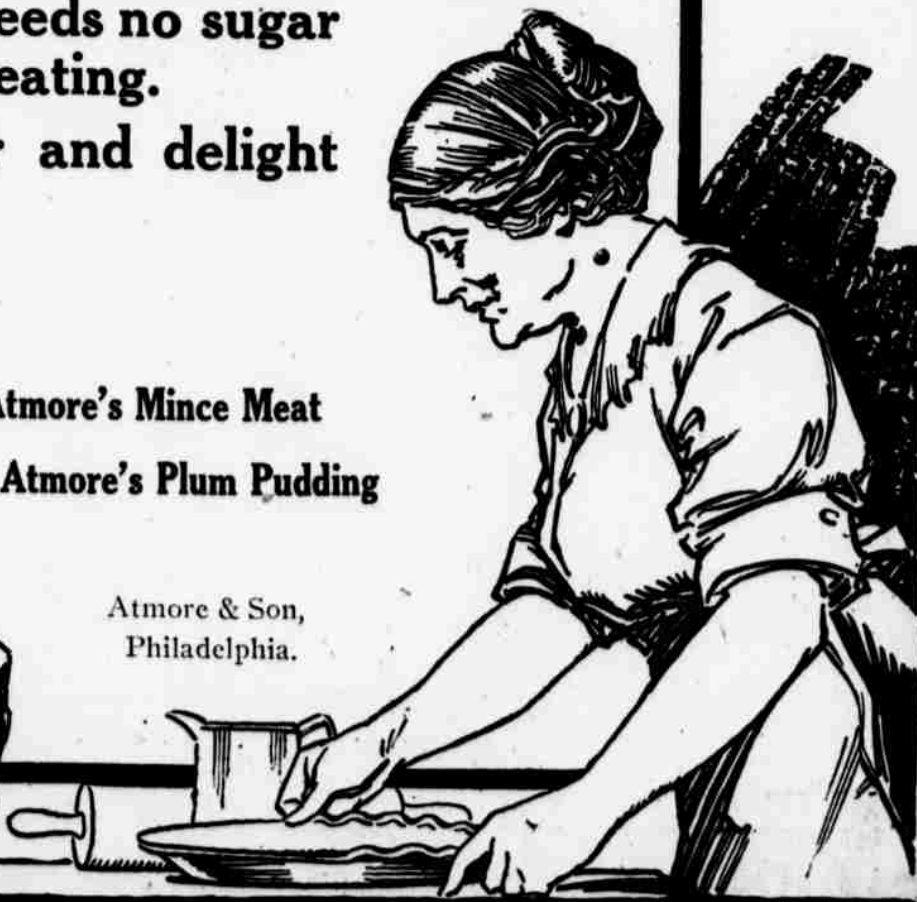
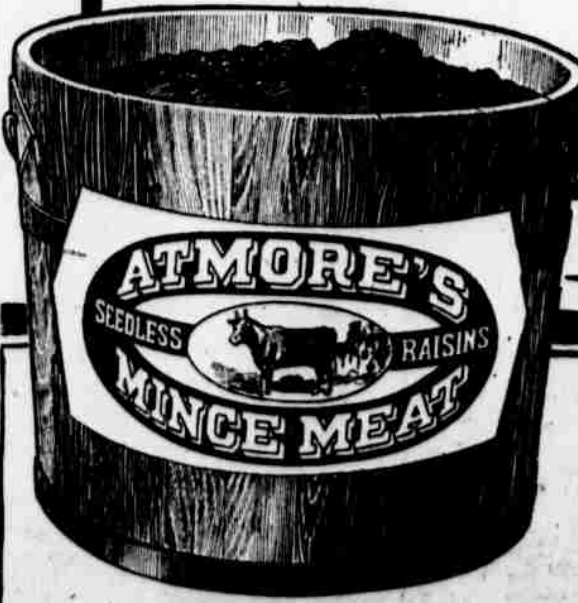
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